

CITY OF CHANDLER, TEXAS

BASIC FINANCIAL STATEMENTS
and REQUIRED SUPPLEMENTARY and OTHER
INFORMATION

FISCAL YEAR ENDED SEPTEMBER 30, 2010

Gollob Morgan Peddy
CERTIFIED PUBLIC ACCOUNTANTS

1001 ESE Loop 323, Suite 300, Tyler, TX 75701
Tel 903-534-0088 Fax 903-581-3915 www.gmpcpa.com
Members American Institute of Certified Public Accountants and Private Companies Practice Section

CITY OF CHANDLER, TEXAS

TABLE OF CONTENTS

SEPTEMBER 30, 2010

	<u>Exhibit or Schedule</u>	<u>Page</u>
FINANCIAL SECTION		
Independent Auditors' Report		1-2
Management's Discussion and Analysis		3-8
Basic Financial Statements:		
Government-wide Financial Statements:		
Statement of Net Assets	1	9
Statement of Activities	2	10
Fund Financial Statements:		
Balance Sheet – Governmental Funds	3	11-12
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	4	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes In Fund Balances of Governmental Funds to the Statement of Activities	5	14
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	6	15-16
Statement of Net Assets – Proprietary Funds	7	17
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	8	18
Statement of Cash Flows – Proprietary Funds	9	19
Notes to the Financial Statements		20-32
Additional Supplemental Information:		
Combining Statements:		
Detailed Schedule of Expenditures – Budget and Actual (Non-GAAP Budget Basis) – General Fund	A-1	33
Detailed Schedule of Revenues – Budget and Actual (Non-GAAP Budget Basis – Enterprise Fund	B-1	34
Detailed Schedule of Expenses – Budget and Actual (Non-GAAP Budget Basis) – Enterprise Fund	B-2	35
Other Reports:		
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		36-37

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Chandler, Texas
Chandler, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Chandler, Texas, as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Chandler, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Chandler, Texas, as of September 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2010, on our consideration of the City of Chandler, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Chandler, Texas' financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to

prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink, reading "Collet Morgan Sedely". The signature is written in a cursive, flowing style.

Certified Public Accountants

Tyler, Texas

December 20, 2010

Management's Discussion and Analysis

As management of the City of Chandler, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the Fiscal year ended September 30, 2010.

Financial Highlights

- As of the end of the current fiscal year, the assets of the City exceed its liabilities by \$7,163,619 (net assets). Of this amount \$832,211 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balance of \$870,981. Of this amount \$515,994 (59.24%) is available for spending at the government's discretion.
- The total net assets of \$7,163,619 are made up of \$5,772,209 in capital assets net of related debt and \$1,391,410 in other net assets.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The financial statements are prepared using Governmental Accounting Statement No. 34 *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*.

The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Chandler's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. However, other nonfinancial factors must also be considered.

The *statement of activities* presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish functions of the City of Chandler that are principally supported by taxes and other governmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety and streets and drainage. The business-type activities include water and sewer.

The fund financial statements are presented using fund designations. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other local governments, used fund accounting to ensure and demonstrate

compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. These funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the other governmental fund is presented as a single aggregated presentation as it is considered a nonmajor governmental fund.

Proprietary funds. The City of Chandler maintains one type of proprietary fund – an enterprise fund. Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. The City used enterprise funds to account for its water and sewer operations and capital projects.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer as well as for the capital projects. A combination of the two funds was presented in the government-wide financial statements.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. As of the end of the fiscal year, September 30, 2010, the City's assets exceeded liabilities by \$7,163,619.

By far the largest portion of the City's net assets (\$5,772,209) reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure); less any related debt used to acquire these assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. This amount increased by \$112,319 from the prior year primarily from the acquisition of land adjacent to the City's Winchester Park. The amount of unrestricted net assets (\$832,211) decreased by \$108,034 from the prior year due to additional expenditures incurred during the current year.

City of Chandler's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 973,987	\$ 1,231,115	\$ 659,769	\$ 689,261	\$ 1,633,756	\$ 1,920,376
Capital assets	3,706,081	2,995,353	4,819,690	4,854,277	8,525,771	7,849,630
Total assets	4,680,068	4,226,468	5,479,459	5,543,538	10,159,527	9,770,006
Current liabilities	69,882	85,665	53,065	66,967	122,947	152,632
Noncurrent liabilities	482,961	14,706	2,390,000	2,493,000	2,872,961	2,507,706
Total liabilities	552,843	100,371	2,443,065	2,559,967	2,995,908	2,660,338
Net invested in capital assets	3,245,259	2,995,353	2,526,950	2,664,537	5,772,209	5,659,890
Restricted	354,987	337,838	204,212	171,695	559,199	509,533
Unrestricted	526,979	792,906	305,232	147,339	832,211	940,245
Total net assets	\$ 4,127,225	\$ 4,126,097	\$ 3,036,394	\$ 2,983,571	\$ 7,163,619	\$ 7,109,668

Governmental activities. Governmental activities increased net assets by \$1,128 during the year which is \$278,583 less than the prior year's increase which was primarily attributable to increased expenses in public safety and streets. The business-type activities resulted in a \$52,823 increase to net assets which is \$3,643 less than the prior year.

City of Chandler's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues						
Charges for services	\$ 962,308	\$ 957,864	\$ 928,945	\$ 764,628	\$1,891,253	\$1,722,492
Capital grants and contributions	-	-	-	-	-	-
General Revenue						
Property taxes	529,645	474,557	-	-	529,645	474,557
Franchise taxes	108,648	114,322	-	-	108,648	114,322
Sales and use taxes	412,565	426,793	-	-	412,565	426,793
Interest income	9,919	19,891	5,866	9,216	15,785	29,107
Other	-	-	-	-	-	-
Total revenue	2,023,085	1,993,427	934,811	773,844	2,957,896	2,767,271

Expenses						
General government	850,767	671,900	-	-	850,767	671,900
Public safety	717,716	655,090	-	-	717,716	655,090
Environmental and public service	86,971	95,359	-	-	86,971	95,359
Highways and streets	226,626	174,099	-	-	226,626	174,099
Parks and recreation	128,943	105,570	-	-	128,943	105,570
Interest	10,934	11,698	-	-	10,934	11,698
Water and sewer operations	-	-	881,988	717,378	881,988	717,378
Total expenses	2,021,957	1,713,716	881,988	717,378	2,903,945	2,431,094
Other						
Transfers	-	-	-	-	-	-
Change in net assets	1,128	279,711	52,823	56,466	53,951	336,177
Net assets, beginning of the year	4,126,097	3,846,386	2,983,571	2,927,105	7,109,668	6,773,491
Net assets, end of the year	\$ 4,127,225	\$ 4,126,097	\$3,036,394	\$ 2,983,571	\$7,163,619	\$7,109,668

Financial Analysis of the Government's Funds

As noted earlier, the City of Chandler uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported an ending fund balance of \$870,981 of which \$515,994 is unrestricted and available for spending at the City's discretion. The remainder is reserved to indicate that it is not available for new spending because it has already been committed for future capital improvements.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail.

Unrestricted net assets of the proprietary fund amounted to \$305,232. The total net assets increased by \$52,823 for the year.

General Fund Budgetary Highlights

Over the year, the City of Chandler did not make any revisions to its original budget. At the end of the year, revenues exceed the budgeted amount by \$61,818. These additional funds together with actual expenditures were less than budgeted amounts by \$271,761 and GAAP adjustments of \$14,439 resulted in an actual decrease to fund balance of \$266,122 at year end.

Capital Assets and Debt Administration

Capital Assets. The City of Chandler's investment in capital assets for the governmental and business-type activities as of September 30, 2010, amounts to \$5,772,209 net of accumulated depreciation and related debt. This investment in capital assets includes land, buildings, machinery and equipment, water and sewer systems, and infrastructure. The total increase in the City's investment in fixed assets for the current year (see note 4c) was \$676,141.

City of Chandler's Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 575,760	\$ 197,400	\$ 108,962	\$ 108,962	\$ 684,722	\$ 306,362
Buildings and improvements	643,044	491,919	-	-	643,044	491,919
Infrastructure	2,097,827	2,037,243	-	-	2,097,827	2,037,243
Machinery and equipment	389,450	268,791	17,438	21,569	406,888	290,360
Water and sewer system	-	-	4,693,290	4,723,746	4,693,290	4,723,746
Combined total	\$ 3,706,081	\$ 2,995,353	\$ 4,819,690	\$ 4,854,277	\$ 8,525,771	\$ 7,849,630

Additional information on the City's capital assets can be found in the footnotes to this financial report.

Long-term debt. At the end of the current year, the City had total debt outstanding of \$2,872,961. Of this amount, \$2,390,000 comprises debt backed by revenue bonds, refunding bonds and certificates of obligation. During the current year, the City incurred \$385,000 in a note payable with the acquisition of land adjacent to Winchester Park.

Several of the City's bonds are insured thus holding a Triple A rating from both Moody's and Standard & Poor's. Additional information on the City's long-term debt can be found in the footnotes to this financial report.

City of Chandler's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Capital leases	\$ 75,822	\$ -	\$ -	\$ -	\$ 75,822	\$ -
Compensated absences	22,139	14,706	-	-	22,139	14,706
Revenue bonds	-	-	2,390,000	2,493,000	2,390,000	2,493,000
Note payable	385,000	-	-	-	385,000	-
Combined total	\$ 482,961	\$ 14,706	\$ 2,390,000	\$ 2,493,000	\$ 2,872,961	\$ 2,507,706

Economic Factors and Next Year's Budgets and Rates

Economic trends in the area mirror those of Tyler, Texas that is located in a U. S. Census metropolitan economic region within commuting distance of most of the City's citizens. In the region, unemployment has risen due to the declining economy in the area that reflects that of the whole country.

The City strives to keep expenditures to a minimum. With controlled spending and use of reserves, the City should be able to absorb any unexpected inflationary price change such as fuel and power costs.

All of these factors were considered in preparing the City's budget for the 2011 fiscal year.

Request for Information

This financial report is designed to provide a general overview of the City of Chandler's finances for all of those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: City of Chandler, Attn: City Secretary, P. O. Box 425, Chandler, TX 75758 or call 903-849-6853 or email skparmer@chandler.tx.com.

BASIC FINANCIAL STATEMENTS

**CITY OF CHANDLER, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010**

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and certificates of deposit	\$ 782,756	\$ 233,733	\$ 1,016,489
Inventory	-	39,818	39,818
Receivables (net of allowance for doubtful accounts)	109,352	114,803	224,155
Internal balances	81,879	(81,879)	-
Restricted Assets:			
Temporarily restricted:			
Revenue bond debt service	-	204,212	204,212
Cash for construction	-	117,679	117,679
Bond issue costs (net)	-	31,403	31,403
Capital Assets (net of accumulated depreciation):			
Land	575,760	108,962	684,722
Buildings and improvements	643,044	-	643,044
Water and sewer system	-	4,693,290	4,693,290
Machinery and equipment	389,450	17,438	406,888
Infrastructure	2,097,827	-	2,097,827
Total Assets	4,680,068	5,479,459	10,159,527
LIABILITIES			
Accounts payable and accrued expenses	69,882	53,065	122,947
Non-current liabilities:			
Due within one year	61,874	110,000	171,874
Due in more than one year	421,087	2,280,000	2,701,087
Total Liabilities	552,843	2,443,065	2,995,908
NET ASSETS			
Investment in capital assets, net of related debt	3,245,259	2,526,950	5,772,209
Restricted for:			
Debt service	-	204,212	204,212
Future construction	354,987	-	354,987
Unrestricted	526,979	305,232	832,211
Total Net Assets	\$ 4,127,225	\$ 3,036,394	\$ 7,163,619

The notes to the financial statements are an integral part of this statement.

**CITY OF CHANDLER, TEXAS
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED SEPTEMBER 30, 2010**

	PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS	
	EXPENSES	CHARGES FOR SERVICES	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT
			GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES
				TOTAL
PROGRAM ACTIVITIES				
PRIMARY GOVERNMENT:				
Governmental activities:				
General government	\$ 850,767	\$ 547,498	\$ (303,269)	\$ (303,269)
Public safety	717,716	403,631	(314,085)	(314,085)
Environmental and public service	86,971	-	(86,971)	(86,971)
Highways and streets	226,626	-	(226,626)	(226,626)
Parks and recreation	128,943	11,179	(117,764)	(117,764)
Interest and fees	10,934	-	(10,934)	(10,934)
Total governmental activities	2,021,957	962,308	(1,059,649)	(1,059,649)
Business-type activities:				
Water and sewer	881,988	928,945	-	46,957
Total business-type activities	881,988	928,945	-	46,957
Total primary government	\$ 2,903,945	\$ 1,891,253	(1,059,649)	(1,012,692)
General revenues:				
Property taxes			529,645	529,645
Franchise taxes			108,648	108,648
Sales and use taxes			412,565	412,565
Interest income			9,919	15,785
Total general revenues			1,060,777	1,066,643
Change in net assets			1,128	53,951
Net assets - beginning of year			4,126,097	7,109,668
Net assets - end of year			\$ 4,127,225	\$ 7,163,619

The notes to the financial statements are an integral part of this statement.

CITY OF CHANDLER, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010

	GENERAL	ECONOMIC DEVELOPMENT FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Cash and Certificates of Deposit	\$ 452,476	\$ 330,280	\$ 782,756
Receivables:			
Sales Tax Receivable	49,411	24,707	74,118
Trash Services Receivable	24,249	-	24,249
Property Tax Receivable (net of allowance for estimated uncollectibles)	10,985	-	10,985
Due from Other Funds	81,879	-	81,879
Total Assets	\$ 619,000	\$ 354,987	\$ 973,987
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 69,882	\$ -	\$ 69,882
Accrued Compensated Absences	22,139	-	22,139
Deferred Revenue	10,985	-	10,985
Total Liabilities	103,006	-	103,006
Fund Balances:			
Reserved for:			
Capital Improvements	-	354,987	354,987
Total Reserved Fund Balances	-	354,987	354,987
Unreserved:			
Undesignated	515,994	-	515,994
Total Undesignated Fund Balances	515,994	-	515,994
Total Fund Balances	515,994	354,987	870,981
Total Liabilities and Fund Balances	\$ 619,000	\$ 354,987	

The notes to the financial statements are an integral part of this statement.

CITY OF CHANDLER, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets (Exhibit 1)

	Total Governmental Funds
Total fund balances governmental funds (Exhibit 3 page 1)	\$ 870,981
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.	3,706,081
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	10,985
Long term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.	<u>(460,822)</u>
Net Assets of governmental activities	<u>\$ 4,127,225</u>

The notes to the financial statements are an integral part of this statement.

CITY OF CHANDLER, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2010

	GENERAL	ECONOMIC DEVELOPMENT FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Property taxes	\$ 529,451	\$ -	\$ 529,451
Sales tax	309,523	103,042	412,565
Franchise tax	108,648	-	108,648
Fines	403,631	-	403,631
Licenses and permits	15,285	-	15,285
Little league fees	4,025	-	4,025
Winchester park	11,179	-	11,179
Subdivision fees	3,550	-	3,550
Interest	6,317	3,602	9,919
Rents	7,730	-	7,730
Expense reimbursements	119,755	-	119,755
Contributions	18,694	-	18,694
Miscellaneous	582,764	-	582,764
Trash and tax collection	284,984	-	284,984
Lease income	12,600	-	12,600
	<u>2,418,136</u>	<u>106,644</u>	<u>2,524,780</u>
Total Revenues			
EXPENDITURES			
General government	1,121,303	89,494	1,210,797
Public safety	548,844	-	548,844
Municipal court	217,640	-	217,640
Environmental and public service	86,191	-	86,191
Highways and streets	93,523	-	93,523
Parks and recreation	82,228	-	82,228
Capital outlay	984,417	-	984,417
Debt service - principal	41,067	-	41,067
Debt service - interest	-	-	-
Appraisal and collection fees	10,934	-	10,934
	<u>3,186,147</u>	<u>89,494</u>	<u>3,275,641</u>
Total Expenditures			
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(768,011)</u>	<u>17,150</u>	<u>(750,861)</u>
Other Financing Sources (Uses):			
Loan proceeds	385,000	-	385,000
Capital lease proceeds	116,889	-	116,889
	<u>501,889</u>	<u>-</u>	<u>501,889</u>
Total Other Financing Sources (Uses)			
Net Change in Fund Balances	(266,122)	17,150	(248,972)
Fund Balance, October 1, 2009	<u>782,116</u>	<u>337,837</u>	<u>1,119,953</u>
Fund Balance, September 30, 2010	<u>\$ 515,994</u>	<u>\$ 354,987</u>	<u>\$ 870,981</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF CHANDLER, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED SEPTEMBER 30, 2010**

Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:

Net change in fund balances - total governmental funds	\$	(248,972)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		710,728
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		194
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		<u>(460,822)</u>
Change in net assets of governmental activities	\$	<u><u>1,128</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF CHANDLER, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FISCAL YEAR ENDED SEPTEMBER 30, 2010

	GENERAL FUND			VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
REVENUES				
Property taxes	\$ 524,600	\$ 524,600	\$ 529,451	\$ 4,851
Sales tax	346,000	346,000	310,315	(35,685)
Franchise tax	107,250	107,250	108,648	1,398
Fines	428,000	428,000	403,631	(24,369)
Licenses and permits	8,500	8,500	15,285	6,785
Little league fees	3,000	3,000	4,025	1,025
Winchester park	21,000	21,000	11,179	(9,821)
Subdivision fees	-	-	3,550	3,550
Interest	8,297	8,297	6,317	(1,980)
Rents	15,228	15,228	7,730	(7,498)
Expense reimbursements	40,000	40,000	119,755	79,755
Contributions	-	-	18,694	18,694
Miscellaneous	50,746	50,746	80,875	30,129
Trash and tax collection	290,000	290,000	284,984	(5,016)
Lease income	12,600	12,600	12,600	-
Total Revenues	1,855,221	1,855,221	1,917,039	61,818
EXPENDITURES				
General government	682,512	691,312	959,568	(268,256)
Public safety	442,068	442,068	485,256	(43,188)
Municipal court	244,048	244,048	246,678	(2,630)
Environmental and public service	97,728	97,728	93,752	3,976
Highways and streets	239,308	239,308	268,630	(29,322)
Parks and recreation	96,590	96,590	91,715	4,875
Debt service - principal	41,067	41,067	41,067	-
Appraisal and collection fees	11,900	11,900	10,934	966
Total Expenditures	1,855,221	1,864,021	2,197,600	(333,579)
Excess (Deficiency) of Revenues Over (Under) Expenditures - Budget Basis	-	(8,800)	(280,561)	(271,761)
Budget Basis to GAAP Basis Adjustments (Note A)	-	-	14,439	14,439
Excess (Deficiency) of Revenues Over (Under) Expenditures - GAAP Basis	-	(8,800)	(266,122)	(257,322)
Net Change in Fund Balances	-	(8,800)	(266,122)	(257,322)
Fund Balance, October 1, 2009	-	-	782,116	782,116
Fund Balance, September 30, 2010	<u>\$ -</u>	<u>\$ (8,800)</u>	<u>\$ 515,994</u>	<u>\$ 524,794</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF CHANDLER, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FISCAL YEAR ENDED SEPTEMBER 30, 2010**

Note A - Explanation of Differences Between Budget Basis Presentation and GAAP

Basis Presentation:

Sources/Inflows of Resources:

Differences - Budget to GAAP	\$ (792)
Decrease in accrued sales taxes	501,889
Loan proceeds for capital acquisitions	<u>501,097</u>
Total Sources/Inflows of Resources	<u>501,097</u>

Uses/Outflows of Resources:

Differences - Budget to GAAP	
Capital outlay acquired through financing agreements	(501,889)
Decrease in accrued expenses	<u>15,231</u>
Total Uses/Outflows of Resources	<u>(486,658)</u>

Net Change in Budget Basis Presentation and GAAP Basis Presentation	<u><u>\$ 14,439</u></u>
---	-------------------------

**CITY OF CHANDLER, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2010**

	BUSINESS-TYPE ACTIVITIES <u>ENTERPRISE FUND</u> OPERATING <u>FUND</u>
ASSETS	
Current Assets:	
Cash and certificates of deposit	\$ 233,733
Inventory	39,818
Accounts receivable (Net)	<u>114,803</u>
Total Current Assets	<u>388,354</u>
Restricted Assets:	
Temporarily Restricted	
Revenue bond debt service	204,212
Cash for construction	<u>117,679</u>
Total Restricted Assets	<u>321,891</u>
Bond Issue Costs (Net)	31,403
Capital Assets:	
Land	108,962
Water and sewer system	6,264,700
Machinery & equipment	58,641
Less: Accumulated depreciation	<u>(1,612,613)</u>
Total Capital Assets Net Of Accumulated Depreciation	<u>4,819,690</u>
Total Assets	5,561,338
LIABILITIES	
Current Liabilities:	
Accounts payable	7,099
Accrued interest	45,966
Due to other funds	81,879
Revenue bonds payable	<u>110,000</u>
Total Current Liabilities	<u>244,944</u>
Noncurrent Liabilities:	
Revenue bonds payable	<u>2,280,000</u>
Total Liabilities	<u>2,524,944</u>
NET ASSETS	
Invested in capital assets, net of related debt	2,526,950
Restricted for debt service	204,212
Unrestricted	<u>305,232</u>
Total Net Assets	<u>\$ 3,036,394</u>

The notes to the financial statements are an integral part of this statement.

CITY OF CHANDLER, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2010

	BUSINESS-TYPE ACTIVITIES
	ENTERPRISE FUND
	OPERATING FUND
OPERATING REVENUES	
Water sales and sewer service	\$ 693,932
Charges for services	235,013
Total Operating Revenues	928,945
OPERATING EXPENSES	
Water and sewer operations	650,497
Depreciation	131,917
Total Operating Expenses	782,414
Operating Income (Loss)	146,531
NON-OPERATING REVENUES (EXPENSES)	
Interest expense	(96,292)
Amortization of bond issue costs	(3,282)
Interest income	5,866
Total Non-Operating Revenues (Expenses)	(93,708)
Change in Net Assets	52,823
Net Assets, October 1, 2009	2,983,571
Net Assets, September 30, 2010	\$ 3,036,394

The notes to the financial statements are an integral part of this statement.

**CITY OF CHANDLER, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2010**

Increase (Decrease) in Cash and Cash Equivalents

	<u>OPERATING FUND</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers and users	\$ 894,381
Cash paid to suppliers for goods and services	(621,560)
Cash paid to employees for services	<u>(38,000)</u>
Net cash provided by operating activities	<u>234,821</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital asset purchases	(97,330)
Interest paid	(98,331)
Principal paid on bonds	<u>(103,000)</u>
Net cash used in capital and related financing activities	<u>(298,661)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned on investments	<u>5,866</u>
Net cash provided by investing activities	<u>5,866</u>
Net decrease in cash	(57,974)
Cash, beginning of period	<u>613,598</u>
Cash, end of period	<u>\$ 555,624</u>
Reconciliation of Cash on Exhibit 7:	
Cash and certificates of deposit	\$ 233,733
Cash - restricted assets	<u>321,891</u>
Total Cash	<u>\$ 555,624</u>
Reconciliation of Operating Income (Loss) To Net Cash Provided By (Used In) Operating Activities:	
Operating income (loss)	\$ 146,531
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:	
Depreciation expense	131,917
Increase in accounts receivable	(31,365)
Decrease in inventory	2,800
Decrease in due to other funds	(3,199)
Decrease in accounts payable	<u>(11,863)</u>
Total adjustments	<u>88,290</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 234,821</u>

The notes to the financial statements are an integral part of this statement.

CITY OF CHANDLER, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

NOTE 1: — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The City of Chandler, Texas (the "City") was incorporated on January 9, 1913, under the provisions of the State of Texas. The City operates under a council form of government and provides the following services as authorized by its charter: public safety (police), streets, health and social services, culture, recreation, public improvements, planning, general administrative services, and utilities operations.

The accounting policies of the City of Chandler, Texas conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies:

B. The Reporting Entity

These financial statements present all of the funds of the City.

The financial statements of the City of Chandler, Texas include all funds and account groups and other organizations for which the City is financially accountable. Financial accountability is determined on the basis of appointment of a voting majority of the respective governing board, imposition of will, financial benefit or burden and financial accountability as a result of fiscal dependency. In determining the financial reporting entity, the City complies with the provisions of Government Accounting Standards Board Statement No. 14, "The Financial Reporting Entity", and includes all component units of which the City appointed a voting majority of the units' board and the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

The Chandler Area Economic Development Corporation, Inc. was formed in 1998, and is governed by a nine-member board of directors, which includes the City's council members. For financial reporting purposes, the Chandler Area Economic Development Corporation, Inc. has been presented as a blended component unit of the City and is reported as a Capital Projects Fund, because its purpose is to account for construction activities funded by the revenues generated by the one-half cent sales tax. The Chandler Area Economic Development Corporation, Inc. does not issue separate financial statements.

Health Facilities Development Corporations

The Chandler Health Facilities Development Corporation and the Rusk County Health Facilities Corporation are public non-profit health facilities development corporations. The Corporations were created pursuant to the provisions of the Health Facilities Development Act. The purpose of the Corporations is to provide health facilities for the promotion and development of health care, research, and education for the public purpose of promoting the health and welfare of the City's residents and the citizens of the State of Texas and to issue bonds on its behalf to finance the cost of health facilities. The Corporations are designated as duly constituted authorities and instrumentalities of the City existing and acting on behalf of, but separate and apart from the City. The City has issued revenue bonds on behalf of these Corporations for the purpose of expanding existing health facilities. The City is not liable for any of the obligations of the Corporations or bound by any actions or proceedings of the Corporations except as may be specifically assumed by the City Council and, accordingly, these obligations are not reported as liabilities in the City's general purpose financial statements. The City has appointed the current Board of Directors, which consists of five persons. The positive response to this particular criteria does not constitute sufficient control to include the Corporations as component units of the City because the corporations are autonomous entities.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues. Major individual governmental funds are reported as separate columns in the fund financial statements.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Economic Development Fund is used to account for the use of the one-half cent sales tax proceeds for capital improvement projects of the City.

The government reports the following major proprietary fund:

The Water and Sewer Fund is used to account for sale of water and wastewater treatment by the City to businesses and residential customers.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include charges to customers or applicants for goods, services, or privileges provided. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivery goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

E. Assets, Liabilities, and Net Assets or Equity

1. Cash and cash equivalents – the City considers all cash in demand deposit accounts and petty cash accounts to be cash and cash equivalents.
2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds:" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables are shown net of an allowance for uncollectible.

The City provides an allowance for doubtful accounts based upon the anticipated collectibility of each specific account, as determined by experience.

Property taxes are levied October 1 on the assessed value of property at January 1 and are due by January 31 of the following year. Unpaid taxes attach as an enforceable lien on property as of January 31. Revenue from taxes assessed is recorded as deferred revenue on October 1. The deferred revenue from taxes is then recognized as revenue during the year as the taxes are actually received.

3. Due from Other Funds

Current portions of long-term interfund loans receivable (reported in "Due from" asset accounts) are considered "available spendable resources".

4. Inventory – is stated at cost using the first in/first out method. Quantities are determined by physical counts made at year end.
5. Capital Assets – includes property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000 (amount not rounded) and an estimated life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property, plant and equipment of the government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20
Machinery and equipment	5
Infrastructure	20
Police vehicles	3

6. Bond issue costs – Bond issue costs are amortized over the life of the bonds under the effective interest method and straight line method.
7. Fund equity – Reserves of fund balance are used to indicate that a portion of fund equity is not available for expenditure or is legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.
9. Net Assets – Represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of the City’s capital assets, net of accumulated depreciation, reduced by any outstanding debt used for the acquisition or construction of those assets. Net assets reported as restricted are those amounts which have limitations imposed on their use either through legislation adopted by the City or through external restrictions imposed by creditors, grantors or other laws and regulations.
10. Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 — RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

- A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets - One element of that reconciliation states that “Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.” The details of this \$3,706,081 difference are as follows:

Capital assets, October 1, 2009, net of accumulated depreciation	\$2,995,353
Capital asset additions, net of retirements	984,417
Depreciation of capital assets, current year	<u>(273,689)</u>
	<u>\$3,706,081</u>

- B. Explanation of certain differences between the governmental fund statement of revenue, expenditures, and changes in fund balance and the government-wide statement of activities - One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated to their estimated useful lives and reported as depreciation expense.” The detail of this \$710,728 difference are as follows:

Capital outlay, asset additions, net of retirements	\$984,417
Depreciation expense	<u>(273,689)</u>
	<u>\$710,728</u>

NOTE 3 — STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The budget for the General Fund is adopted essentially on the cash basis. The budgetary comparisons for this fund are on this non-GAAP budgetary basis.
2. Appropriations lapse at year end.

3. Encumbrance accounting is not used.

NOTE 4 — DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2010, the City had the following deposits and investments:

	<u>BOOK BALANCE</u>	<u>BANK BALANCE</u>
Depository Accounts		
Insured	\$ 281,006	\$ 291,046
Collateral held by pledging bank's Trust Department in City's name	<u>1,056,799</u>	<u>1,139,008</u>
Total Deposits	1,337,805	1,430,054
Petty Cash on hand	<u>575</u>	<u>-</u>
Total Cash and Cash Equivalents	<u>\$ 1,338,380</u>	<u>\$ 1,430,054</u>

Interest Rate Risk – The City's investment policy allows for investments in certificates of deposit and money market funds to be made in order to achieve the highest return of interest on excess cash.

B. Receivables

Receivables as of year end for the government's individual major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Economic Development Fund</u>	<u>Water & Sewer Fund</u>	<u>Total</u>
Receivables:				
Taxes	\$ 17,153	\$ -	\$ -	\$ 17,153
Sales Tax	49,411	24,707	-	74,118
Accounts (services)	<u>24,249</u>	<u>-</u>	<u>120,014</u>	<u>144,263</u>
Gross Receivables	90,813	24,707	120,014	235,534
Less: Allowance for Uncollectibles	<u>(6,168)</u>	<u>-</u>	<u>(5,211)</u>	<u>(11,379)</u>
Net Receivables	<u>\$ 84,645</u>	<u>\$ 24,707</u>	<u>\$ 114,803</u>	<u>\$224,155</u>

C. Capital Assets

Capital asset activity for the year ended September 30, 2010 was as follows:

<u>PRIMARY GOVERNMENT</u>	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 197,400	\$ 378,360	\$ -	\$ 575,760
Total Capital Assets, Not Being Depreciated	197,400	378,360	-	575,760
Capital Assets, Being Depreciated:				
Buildings and Improvements	1,155,198	215,890	-	1,371,088
Infrastructure	2,540,577	193,249	-	2,733,826
Machinery and Equipment	694,055	196,918	30,306	860,667
Total Capital Assets, Being Depreciated	4,389,830	606,057	30,306	4,965,581
Less Accumulated Depreciation For:				
Buildings and Improvements	(663,279)	(64,765)	-	(728,044)
Infrastructure	(503,334)	(132,665)	-	(635,999)
Machinery and Equipment	(425,264)	(76,259)	(30,306)	(471,217)
Total Accumulated Depreciation	(1,591,877)	(273,689)	(30,306)	(1,835,260)
Net Total Assets Being Depreciated	2,797,953	332,368	-	3,130,321
Governmental Activities Capital Assets, Net	<u>\$ 2,995,353</u>	<u>\$ 710,728</u>	<u>\$ -</u>	<u>\$ 3,706,081</u>
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 108,962	\$ -	\$ -	\$ 108,962
Total Capital Assets, Not Being Depreciated	108,962	-	-	108,962
Capital Assets, Being Depreciated:				
Water and Sewer System	6,167,370	97,330	-	6,264,700
Machinery and Equipment	58,641	-	-	58,641
Total Capital Assets, Being Depreciated	6,226,011	97,330	-	6,323,341
Less Accumulated Depreciation For:				
Water and Sewer System	(1,443,624)	(127,786)	-	(1,571,410)
Machinery and Equipment	(37,072)	(4,131)	-	(41,203)
Total Accumulated Depreciation	(1,480,696)	(131,917)	-	(1,612,613)
Net Total Assets Being Depreciated	4,745,315	(34,587)	-	4,710,728
Business-Type Activities Capital Assets, Net	<u>\$ 4,854,277</u>	<u>\$ (34,587)</u>	<u>\$ -</u>	<u>\$ 4,819,690</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General Government	\$ 24,970
Public Safety	68,121
Environmental and Public Service	780
Parks and Recreation	46,715
Highways and Streets	<u>133,103</u>
Total depreciation expense, governmental activities	<u>\$273,689</u>
Business-Type Activities:	
Water, Sewer and Sanitation Operations	<u>\$131,917</u>

During the current year, the City acquired land adjacent to land it owned at Winchester Park for possible future park expansion or a possible new city hall site. The title to the land has been placed with the Texas Parks and Recreation Foundation which will allow the City to pursue grant funding for any park expansion. This will also allow the City to use the price of the land as matching funds against future grant proceeds.

D. Leases

Operating Leases

Effective March 15, 2005, the City entered into a 10-year agreement to lease land to Alltel Communications, formerly Sprint Cellular, for a communications tower site. Effective August 14, 2007, the lease agreement was amended. The lease term was extended with Alltel Communications having the option to extend the agreement for each of four additional five year terms. Commencing on March 15, 2008, the rent will increase to \$9,000 per year. On March 15, 2015 and on each March 15th thereafter, rent shall increase by an amount equal to 3% of the rent payable for the year immediately preceding such increase. During the year ended September 30, 2010, the City received \$9,000 in rent under this agreement.

Future rentals to be earned by the City under this agreement are as follows:

<u>Year</u>	<u>Amount</u>
<u>Ended</u>	
2011	\$ 9,000
2012	9,000
2013	9,000
2014	9,000
2015	9,270
2016-2020	50,690
2021-2025	58,761
2026-2030	68,120
2031-2035	78,968
2036	<u>17,243</u>
TOTAL	<u>\$ 319,052</u>

The City also entered into a lease agreement to rent a piece of property for a monthly amount of \$600. Effective April 10, 2007, this lease agreement was amended and the rent was increased to \$650 per month. The City will sublease a portion of this property to an organization for \$300 per month. Under these two agreements, the City paid \$7,800 in rent and received \$3,600 in rent during the year ended September 30, 2010.

Capital Leases

The City has entered into a lease agreement as lessee for financing the purchase of police vehicles. This lease agreement qualifies as a capital lease for accounting purposes.

The assets acquired through the capital lease are as follows:

	Governmental Activities
Asset:	
(3) Police Tahoe Cruisers	\$ 116,889
Less: Accumulated depreciation	<u>(29,221)</u>
Total	<u>\$ 87,668</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2010 were as follows:

<u>Year Ending September 30,</u>	Governmental Activities
2011	\$ 41,067
2012	<u>41,067</u>
Total minimum lease payments	82,134
Less: Amount representing interest	<u>(6,312)</u>
Present Value of minimum lease payments	<u>\$ 75,822</u>

E. Long-term debt

Revenue Bonds and Certificates of Obligation

The government has issued bonds where the government pledges tax revenue and income derived from the acquired or constructed assets to pay debt service. The bonds issued by the City in prior years were to fund construction projects to improve or expand the water and sewer system. Income derived from the sale of water will be used to service the debt requirements. In prior years, the City issued refunding bonds to refinance a portion of its old bonds and the City also issued certificates of obligation to pay for wastewater system and street improvements.

Revenue bonds outstanding are as follows:

<u>Issue</u>	<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Series – 2006	Refunding Issue	4.90%	600,000
Series – 2006	Certificate of Obligation	4.90%	<u>1,790,000</u>

Total Outstanding Revenue Bonds and Certificates of Obligation \$2,390,000

The respective bond ordinances of the issues listed above require the following of the City: (a) creation of an interest and sinking fund for each issue; (b) establish a minimum balance to be held by each issue in order to pay the next interest and sinking requirement due; and (c) maintain tax revenue and net income from the City's water and sewer system sufficient to meet annual debt service requirement for all bond issues before the passage of a resolution authorizing the issuance of any new obligations.

As of September 30, 2010, the City was in compliance with all of its bond ordinances.

Annual debt service requirements to maturity for bonds are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 110,000	\$ 100,141
2012	115,000	95,532
2013	115,000	90,714
2014	120,000	85,895
2015	125,000	80,867
2016-2020	720,000	319,907
2021-2025	885,000	156,496
2026	<u>200,000</u>	<u>8,380</u>
Total	<u>\$2,390,000</u>	<u>\$ 937,932</u>

Revenue bond ordinances require that the following information concerning insurance coverage as of September 30, 2010 be disclosed.

<u>ANNUAL PREMIUM</u>	<u>POLICY NO.</u>	<u>NATURE OF COVERAGE</u>	<u>AMOUNT OF COVERAGE</u>	<u>POLICY PERIOD</u>
\$ 15,714	#H5490-01	Workers Compensation	Statutory Limits	10-1-09 - 10-1-10
\$ 10,364	#NYA803565	Liability General	\$1,000,000/ occurrence	10-1-09 - 10-1-10
		Auto and Law Enforcement	\$1,000,000/occurrence	
		Property: Real & Personal & Mobile Equipment	\$3,290,790	10-1-09 - 10-1-10
		Boiler & Machinery	\$100,000/ accident	10-1-09 - 10-1-10
\$ 3,967	#NYA812114	Errors & Omissions	\$1,000,000	10-1-09 - 10-1-10

Notes Payable

The City entered into a note payable with an individual; original loan amount of \$385,000; bearing 6% interest; payable in equal annual installments of \$52,317.95, due May 1 of each year beginning in 2011 and ending in 2021; secured by land

	\$ 385,000
Less: Current Portion	<u>22,764</u>
LONG-TERM PORTION	<u>\$ 362,236</u>

Annual debt service requirements to maturity for the City's note payable are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 22,764	\$ 29,554
2012	25,835	26,483
2013	27,724	24,594
2014	29,751	22,567
2015	31,926	20,392
2016-2020	198,246	63,343
2021	<u>48,754</u>	<u>3,564</u>
	<u>\$ 385,000</u>	<u>\$ 190,497</u>

Changes in long-term liabilities

Long term liability activity for the year ended September 30, 2010 was as follows:

	Beginning Balance 10/1/2009	Additions	Reductions	Ending Balance 9/30/2009	Due Within One Year
Governmental Activities:					
Capital Leases	\$ -	\$ 116,889	\$ 41,067	\$ 75,822	\$ 36,896
Notes Payable	-	385,000	-	385,000	22,764
Compensated Absences	14,706	7,433	-	22,139	2,214
Governmental Activity Long-Term Liabilities	<u>\$ 14,706</u>	<u>\$ 509,322</u>	<u>\$ 41,067</u>	<u>\$ 482,961</u>	<u>\$ 61,874</u>
Business-Type Activities:					
Revenue Bonds	\$ 2,493,000	\$ -	\$ 103,000	\$ 2,390,000	\$ 110,000
Business-Type Activity Long-Term Liabilities	<u>\$ 2,493,000</u>	<u>\$ -</u>	<u>\$ 103,000</u>	<u>\$ 2,390,000</u>	<u>\$ 110,000</u>

NOTE 5 — GROUP CONCENTRATIONS OF CREDIT RISK

The City provides water and sewer services as well as solid waste collection and disposal services to its residents. Residents use the City's water and sewer system and the solid waste collection services and are billed each month for usage in the prior month. The credit granted by the City for usage of these services is all with residents of the City. As of September 30, 2010, the City had \$139,052 in net receivables from its residents for the usage of these services.

NOTE 6 — RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance and insurance with the Texas Municipal League (TML), a public entity risk pool for municipalities. The City pays premiums in monthly installments for this coverage. As of September 30, 2010, the City did not have any liability for unpaid claims or adjustments under policies carried with TML. During the year ended September 30, 2010, there was no reduction in insurance coverage from the prior year. There were no settlements in the prior three fiscal years which exceeded insurance coverage carried by the City.

NOTE 7 — COMMITMENTS

The City has a contract with the Chandler Volunteer Fire Department in which it makes an annual contribution of \$30,000 in exchange for fire protection for residents of the City. During the year ended September 30, 2010, the City paid \$30,000 under this contract.

The City has a contract with its water superintendent for meter reading services. This contract, which calls for the City to pay \$11.50 per meter read each month, is for a three-year period beginning September 30, 2008 and ending on September 30, 2011.

The City has a contract with the BMC Boys Baseball and the East Texas Girls Softball Leagues to lease the concession operation at Winchester Park. Under the agreement, the lessee will pay the City the first \$10,000 made on concession sales, with the funds to be used by the City for park projects. Revenues received under this agreement during the year ended September 30, 2010 were \$10,000.

The City has a contract with Sanitation Solutions for solid waste collection and disposal services for the residents of the City. The contract began May 1, 2007 and is effective until September 30, 2012. The City paid \$186,772 under this contract as of September 30, 2010.

NOTE 8 – EMPLOYEES’ PENSION PLAN OBLIGATIONS

Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P. O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS’ website at www.TMRS.com.

	<u>Plan Year 2010</u>
Employee deposit rate	5.0%
Matching ratio (city to employee)	1 to 1
Year required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20
Updated Service Credit	0%
Annuity Increase (to retirees)	0% of CPI

Contributions

Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member’s projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that City. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

Annual Required Contribution (ARC)	\$ 41,280
Interest on Net Pension Obligation	-
Adjustment to the ARC	-
Annual Pension Cost (APC)	41,280
Contribution Made	<u>41,280</u>
Increase (decrease) in net pension obligation	-
Net Pension Obligation/(Asset), beginning of year	<u>-</u>
Net Pension Obligation/(Asset), end of year	<u>\$ -</u>

Three Year Trend

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Actual Contribution Made</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation/ (Asset)</u>
9/30/2009	\$ 53,139	\$ 53,139	100%	\$ -
9/30/2010	41,280	41,280	100%	-

General System-wide Actuarial Assumptions

The required contribution rates for fiscal year 2010 were determined as part of the December 31, 2009 actuarial valuations. Information as of the latest actuarial valuation, December 31, 2009, follows:

Valuation Date	<u>12/31/2009</u>
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	23 years; closed period
Amortization Period for new Gains / Losses	25 years
Asset Valuation Method	10-year Smoothed Marker
Actuarial Assumptions:	
Investment Rate of Return*	7.5%
Projected Salary Increases*	Varies by age and service

*Includes Inflation at	3.00%
Cost-of-Living Adjustments	N/A

Funding Status and Funding Progress

The funded status as of December 31, 2009, the most recent actuarial valuation date, is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Unfunded AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/2009	69,727	319,393	21.8%	249,666	483,165	51.7%

NOTE 9 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended September 30, 2010, expenditures exceeded appropriations in the General Government department of the General Fund by \$268,256, Municipal Court department by \$2,630, Public Safety department by \$43,188, and in Highways and streets department by \$29,322. These overexpenditures were funded by greater than anticipated revenues and available fund balance in the General Fund.

NOTE 10- SUBSEQUENT EVENTS

On October 15, 2010, the City issued Utility System Revenue Bonds, Series 2010, in the amount of \$1,300,000. The bonds bear interest at 4.2% due April 15 and October 15, with the final installment due April 15, 2030. The bond proceeds will be used for repairs and additions to the City’s water and sewer system.

NOTE 11 – CONTINGENCIES

During the year ended September 30, 2010, the City received a grant under the State of Texas CDBG program to drill a water well in order to increase pressure in the City’s water system. The site selected produced water of unsatisfactory quality and had to be abandoned. The City is currently seeking an extension of the grant contract performance period to March 27, 2011, in order to drill another well on a different site. If an extension is not granted, under the terms of the grant agreement, the City may have to refund to the State \$133,215 of grant funds expended to date.

ADDITIONAL SUPPLEMENTAL INFORMATION

CITY OF CHANDLER, TEXAS
DETAILED SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
(NON-GAAP BUDGET BASIS) - GENERAL FUND
FISCAL YEAR ENDED SEPTEMBER 30, 2010

	GENERAL FUND			VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
EXPENDITURES				
General government	\$ 682,512	\$ 691,312	\$ 959,568	\$ (268,256)
Public safety	483,135	483,135	526,323	(43,188)
Municipal court	244,048	244,048	246,678	(2,630)
Environmental and public service	97,728	97,728	93,752	3,976
Highways and streets	239,308	239,308	268,630	(29,322)
Parks and recreation	96,590	96,590	91,715	4,875
Interest and fees	11,900	11,900	10,934	966
Total Expenditures - Budget Basis	<u>\$ 1,855,221</u>	<u>\$ 1,864,021</u>	2,197,600	<u>\$ (333,579)</u>
Financial Statement Adjustments:				
Capital outlay acquired through financing agreements			501,889	
Decrease in accrued expenses			<u>(15,231)</u>	
TOTAL EXPENDITURES - GAAP BASIS			<u>\$ 2,684,258</u>	

CITY OF CHANDLER, TEXAS

DETAILED SCHEDULE OF REVENUES - BUDGET AND ACTUAL

(NON-GAAP BUDGET BASIS) - ENTERPRISE FUND

FISCAL YEAR ENDED SEPTEMBER 30, 2010

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
<u>REVENUES</u>				
Water and sewer service	\$ 675,100	\$ 675,100	\$ 659,368	\$ (15,732)
Interest income	2,175	2,175	5,866	3,691
Water connections	4,000	4,000	5,400	1,400
Sewer connections	3,769	3,769	5,775	2,006
Initial turn on	5,000	5,000	6,725	1,725
Reconnection fees	1,500	1,500	1,925	425
Pump truck dumping	53,000	53,000	80,940	27,940
Grants	135,790	135,790	133,215	(2,575)
Miscellaneous	<u>3,200</u>	<u>3,200</u>	<u>1,033</u>	<u>(2,167)</u>
Total Revenues - Budget Basis	<u>\$ 883,534</u>	<u>\$ 883,534</u>	900,247	<u>\$ 16,713</u>
Financial Statement Adjustments:				
Increase in accrued revenues for water and sewer service			<u>34,564</u>	
TOTAL REVENUES - GAAP BASIS			<u>\$ 934,811</u>	

CITY OF CHANDLER, TEXAS

DETAILED SCHEDULE OF EXPENSES - BUDGET AND ACTUAL

(NON-GAAP BUDGET BASIS) - ENTERPRISE FUND

FISCAL YEAR ENDED SEPTEMBER 30, 2010

<u>EXPENSES</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
Contract services	\$ 184,600	\$ 184,600	\$ 180,882	\$ 3,718
Material and supplies	136,900	136,900	186,442	(49,542)
Personnel services	40,000	40,000	38,000	2,000
Other expenses	66,160	66,160	61,775	4,385
Bond principal	103,000	103,000	97,000	6,000
Bond interest and fees	106,484	106,484	104,331	2,153
Capital improvements	<u>409,790</u>	<u>409,790</u>	<u>289,184</u>	<u>120,606</u>
Total Expenses - Budget Basis	<u>\$ 1,046,934</u>	<u>\$ 1,046,934</u>	957,614	<u>\$ 89,320</u>
Financial Statement Adjustments:				
Expenses reclassified as decreases in liabilities			(97,000)	
Decrease in accrued expenses			(16,495)	
Expenses reclassified as capital assets			(97,330)	
Amortization of bond issue costs			3,282	
Depreciation			<u>131,917</u>	
TOTAL EXPENSES - GAAP BASIS			<u>\$ 881,988</u>	

OTHER REPORTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the City Council
City of Chandler, Texas

We have audited the financial statements of the City of Chandler, Texas as of and for the year ended September 30, 2010, and have issued our report thereon dated December 20, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit we considered the City of Chandler, Texas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Chandler, Texas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Chandler, Texas' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying paragraphs below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the following paragraphs to be material weaknesses.

Audit Adjustments – Depreciation Expense

Effective internal control over financial reporting involves the identification and analysis of the risk of material misstatements to the City's audited financial statements. Management has not developed policies and procedures to compute, review, and record depreciation expense. As a result of these policies and procedures not being developed, material adjustments were necessary to record depreciation expense in the financial statements.

Preparing Financial Statements

Effective internal control over financial reporting involves identification and analysis of the risk of material misstatements to the City's audited financial statements. Controls should also determine how those identified risks should be managed. Management has not identified risks to the preparation of reliable financial statements and as a result has not designed effective controls over the preparation of the financial statements to prevent or detect material misstatements, including footnote disclosures.

The City relies on its auditors to prepare its financial statements and footnote disclosures. The auditors cannot be part of the City's internal controls over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Chandler, Texas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This communication is intended solely for the information and use of management, and the City Council of the City of Chandler, Texas, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants

Tyler, Texas
December 20, 2010